PepsiCo, Inc. Annual Report 1967

Contents

On the Cover What do the people on the cover have in common? Each is buying a product manufactured and sold by a PepsiCo, Inc. division somewhere in the world. PepsiCo, Inc. is a world-wide consumer products and service company whose consumer product divisions specialize in soft drinks and convenience foods. Its products are enjoyed in markets where more than a billion people live in the United States and 114 other countries.

Financial Highlights

Net Sales in 1967 were $665,345,000, an increase of 10 percent over $604,666,000 in 1966.

Net Income for 1967 was $39,249,000 compared with $38,040,000 previously stated for 1966.

Earnings Per Share were $1.88 rising 3 percent from $1.83 previously reported for 1966.

Average Shares Outstanding were 20,917,995 for 1967 and 20,753,840 for 1966 adjusted for the two-for-one stock split.

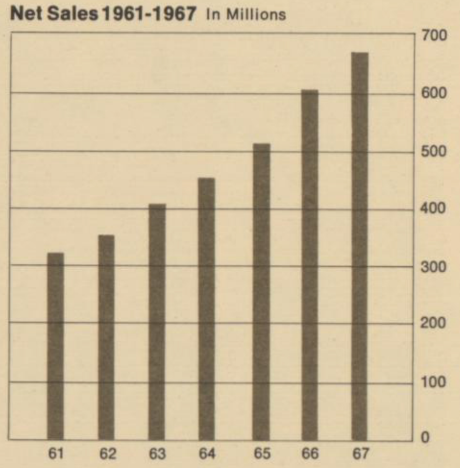
Dividends were increased in June 1967 by twelve and one-half percent to a quarterly rate of $.22½ per share from the former rate of $.20 per share. On an annual basis the current rate is $.90 per share compared to the former rate of $.80 per share.

Plant and Equipment Expenditures were $37,502,000 in 1967 compared with $34,916,000 as previously reported in 1966.

Depreciation and Amortization was $19,800,000 and $16,470,000 for 1967 and 1966 respectively.

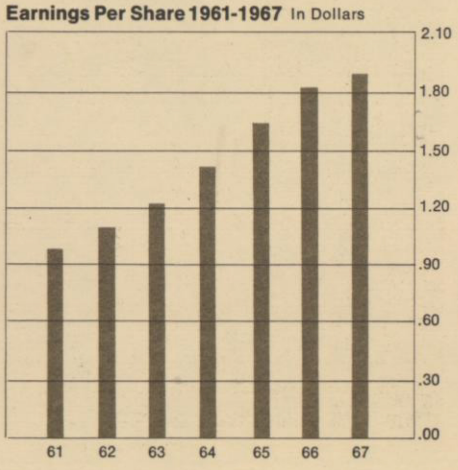
Shareholders' Equity increased to $216,368,000 at the end of 1967, compared to $192,214,000 a year earlier.

Net Sales 1961-1967 In Millions



Net Income 1961-1967 In Millions

Earnings Per Share 1961-1967 In Dollars



President Donald M. Kendall, Chairman Herman W. Lay

To Our Shareholders:

This marks the third year of operation of your Company using the PepsiCo name and we are pleased to continue reporting gains in both sales and earnings.

For 1967, sales totaled $665,345,280, an increase of 10 percent over 1966 sales of $604,665,701.

At the same time, net income after taxes rose to $39,249,114, or $1.88 per share, a 3 percent increase over 1966 earnings, as previously reported, of $38,040,288, or $1.83 per share.

It is significant to note that these gains were made in spite of an operating loss before taxes of $5.3 million at the Montezuma, N.Y. beet/cane sugar refinery and in spite of increasing costs of material, supplies and services. As explained on Page 8, steps are being taken to dispose of the Montezuma sugar business through an arrangement with New York Sugar Industries, Inc. We will have a loss from this operation in 1968 but are confident that it will be no more than half that of 1967.

The operations and achievements of our major divisions—Pepsi-Cola Division, Frito-Lay Division, PepsiCo International Division and Lease Plan International—are described at length elsewhere in this report.

At the last annual meeting, shareholders approved a two-for-one stock split. One of the objectives of the stock split was to bring the market price of our stock into a price range which would attract more individual investors. We are pleased to report an increase in the number of shareholders of nearly 10% to more than 49,000. At the same time, the effective rate of the quarterly dividend was increased from 20 to 22½ cents per share, equivalent on an annual basis to 90 cents per share.

The status, at the time of writing of this report, of the mergers of North American Van Lines, Inc. and Chandler Leasing Corporation into PepsiCo is described later in this report.

Expansion of our overseas food business continues, as we are in the process of acquiring two manufacturers of cookies, candy and other snacks in Sweden and a cookie business in Mexico. The present combined sales of these companies is about $7 million a year.

During 1967, we announced plans for a 400,000 square foot World Headquarters, to be constructed on a campus-like 112-acre site in suburban Harrison, N.Y. When the new headquarters, designed by the leading architectural firm of Edward Durrell Stone, are completed in January 1970, we shall have our entire headquarters staff under one roof for the first time. The resulting efficiencies and the flexibility provided for future long range growth add significance to this move.

Plant construction, modernization and expansion continue at about the same level as in recent years. No new equity or long-term debt financing is planned at this time.

Because of the recently announced government controls on new overseas investments and the repatriation of earnings, our international financial activities must be planned very carefully, but no serious limitations on growth are expected.

The $30 million of 4½% convertible debentures sold overseas in 1966 is not covered by these controls and a substantial portion remains available for investment. These "Eurodollars" together with local borrowings will give needed flexibility during this period of emergency. The Company has cooperated fully with the voluntary control program of the past two years and, of course, will comply with the direct controls recently imposed. These controls can only aggravate the U.S. balance of payments problem long range; therefore, it is our hope that all possible steps will be taken to lift them at an early date.

It is fortunate that the Company continues to be able to attract employees of the highest calibre—the lifeblood of our Company's growth. We like the fact that many promotions in the past year went to men and women who began their careers in much less important jobs inside the Company.

We appreciate so much the loyalty and diligence of our employees and at the same time the interest and support of shareholders.

Your attention is invited to the center section of this report where you will find many of the Company's products pictured. Twenty-five thousand employees and forty-nine thousand shareholders with their families and friends, all asking for our products by brand name give strong support to our fine sales force.

Every division is geared to producing more sales and profits in 1968. We are optimistic that our objective for a substantial improvement over last year's earnings growth rate will be met.

Very truly yours,

Herman W. Lay
Chairman of the Board

Donald M. Kendall
President

March 15, 1968

James B. Somerall
President & Chief Executive Officer

Continuing the trend of recent years, sales of the Pepsi-Cola Division continued to climb during 1967.

In addition to the rise in popularity of Pepsi-Cola, a particularly bright spot for the year was the uninterrupted rise in sales of Diet Pepsi-Cola which increased its share of the diet cola market.

Diet Pepsi sales were spurred by the public's acceptance of the product's new advertising theme, " Girls Girl Watchers Watch Drink Diet Pepsi." Theme music for the Diet Pepsi commercials became a popular record, "Music to Watch Girls By," and rose near the top of the Hit Parade.

The new advertising theme for Pepsi-Cola, "Taste That Beats the Others Cold," also achieved an extremely high penetration in the public's awareness in a short period of time, and continues to increase its impact. The theme was brought to the public via television and radio commercials, newspaper and magazine advertisements, and a new program of colorful outdoor billboards.

During the year, Mountain Dew proved particularly popular in the "cold bottle" market—those drinks sold through vending machines and coolers for consumption on premises—and indications are that this product will represent an important portion of Pepsi-Cola Division sales in the years ahead.

The company's research and test-marketing in the chocolate drink field last year led to an arrangement with an outside manufacturer to produce Devil Shake.

Tropic Surf, a unique new citrus-flavored low-calorie drink is currently in three test markets. Based on encouraging results there, plans are underway to expand these tests to three regional plants serving some two dozen or more other cities.

During 1968, Pepsi-Cola plans to introduce a new line of flavors under the Mirinda label, now being used for certain PepsiCo International products. Products under the Mirinda Dry label are already in test market.

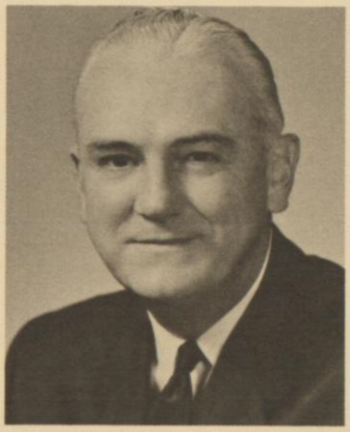
Convenience packaging continued to grow in importance during 1967. The Pepsi-Cola Division remains an industry leader in this respect, and last year, more than one out of every six packages sold were either cans or one-way bottles.

The company's franchise bottlers displayed enthusiastic confidence in the company, its products and its future, when they attended the Bottler Roundup—a convention of the company and its bottlers—held in 1967 in Phoenix, Ariz. This confidence was illustrated by their record-breaking purchases of the tools of marketing, including trucks, vending machines and advertising.

Construction began in 1967 on one of the most significant developments in the Company's history, the Pepsi-Cola Management Institute. This is the first institution of its kind proposed by any company in the soft drink industry.

Opening in 1968, the Institute will have a permanent staff recruited from the nation's leading universities and graduate business schools, supplemented by visiting lecturers prominent in the soft drink industry. The Institute will keep executives and key employees of Pepsi-Cola Division and its franchise bottlers abreast of the latest in management, marketing and production ideas and techniques.

It is significant to note that the major sales gains of the Pepsi-Cola Division during 1967 were made in the face of the worst summer weather throughout much of the U.S. in three decades. Despite the unseasonably cool and rainy summer, Pepsi-Cola products maintained their healthy growth rate. With this impetus, and the anticipation of more normal summer weather, the Pepsi-Cola Division looks forward to setting new sales records during 1968.



William B. Oliver
Chairman of the Board & Chief Executive Officer

Sales continued to gain and overall growth was favorable for the Frito-Lay Division during 1967, in the face of new and intense competition. With this competitive pressure and operating costs generally on the rise, the division did not achieve earnings growth for the year.

Higher sales were attributed primarily to the high quality of the merchandise line; to the expertise by which it is advertised and merchandised; and to the nation-wide distribution system, which delivers the fresh products direct to the retail stores through a highly trained and experienced route sales force.

The most popular brands, all nationally distributed, which accounted for the major share of sales were Lay's potato chips, Fritos corn chips, Doritos tortilla chips, Chee-tos cheese puffs, Rold Gold pretzels, Baken-ets pork rinds, Lay's dry roasted peanuts, and Fritos brand dip mixes.

During the year Frito-Lay was saddened by the loss of one of its most famous salesmen, the late comedian Bert Lahr, who became as well known for his award-winning Lay's television commercials as he was for his stage and screen acting. The company, however, will continue, in a different and appealing type of format, the use of the familiar campaign for Lay's potato chips, "You can eat a million, but nobody can eat just one." Other effective new national advertising campaigns will be released to maintain and accelerate the consumer acceptance for Frito-Lay brands in 1968.

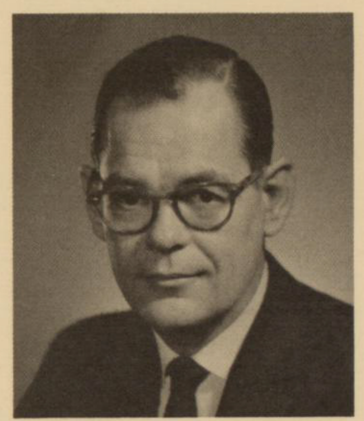
The Company plans to intensify marketing of Fritos brand jalapeno bean dip and Fritos dip mixes, as well as Towie brand cocktail food specialties, which continue to grow in sales volume.

From Frito-Lay's advanced research laboratories, opened in 1967, two new products were introduced for test marketing. They are Fantastix, a unique puffed corn meal product with peanut butter or cheddar cheese centers and tacos-flavored Doritos tortilla chips. Several new products are expected to be market tested in 1968, and others are in earlier stages of development.

Since the Austex Foods Division of Frito-Lay did not fit into the Company's long-range plan for expansion, this operation was sold early in January of this year.

In major management changes, William B. Oliver was elevated from President to Chairman of the Board and chief executive officer, and Harold R. Lilley was promoted from Executive Vice President to President and chief operating officer. The field divisions and the national marketing and sales organizations were strengthened and expanded with additional management personnel.

An upward trend in both sales and earnings starting in the latter part of the year, and continuing in the early weeks of 1968, has strengthened management's optimistic plans for a record full year 1968.



Peter K. Warren
President & Chief Executive Officer

More PepsiCo International products were consumed in more countries than ever before in 1967, as the overseas division of PepsiCo continued its rapid expansion.

By year-end, Pepsi-Cola was sold in overseas markets with a total population of more than a billion. The people in many of those markets also enjoyed Mirinda, Paso de los Toros and Teem, brand names of the Company's line of flavors in overseas markets.

These soft drinks enjoyed rapid increases in 1967, and represent a growing portion of sales. Nearly 250 bottlers in 51 countries now bottle these flavors in addition to Pepsi-Cola, and this trend toward the availability of the full line of PepsiCo beverage products in overseas markets is expected to continue.

Twenty-six new bottling plants were opened in 16 countries during the year, including the major markets of Melbourne, Australia; Rio de Janeiro, Brazil; and Córdoba, Argentina. A similar number is expected to be opened in 1968. At year's end, Pepsi-Cola was sold abroad through 494 bottling plants in 114 countries.

The Company's interest in opening up the countries of Eastern Europe to the sales of its soft drink products continues. A new bottling plant was opened in Rumania last year, and sales in Yugoslavia were further broadened with the opening of three additional plants there. Also, the Company participated in trade fairs in Russia, Poland and Yugoslavia.

At Canada's Expo '67 in Montreal, the nearly 50 million visitors enjoyed 24 million drinks of Pepsi.

In 1967, the Company had total or partial ownership in snack food companies in six major markets outside the U.S.: Japan, Mexico, Canada, the United Kingdom, West Germany and Austria, and had granted a Fritos corn chip franchise in South Africa.

The scope of snack food operations overseas was widened early in 1968, when three new companies were acquired or were in the process of being acquired: Mac'Ma, S.A., a specialty cookie company in Mexico; the Pricks Fabriker AB group of companies, manufacturers of quality biscuits and cakes, in Sweden; and Choklad Fabriken Coralli AB and its subsidiary, General Nordic AB, makers of confectionery and snack foods, also located in Sweden. Combined sales of the three companies are $7 to $8 million. The company is continuing aggressive efforts toward expansion of international food operations on a profitable basis through acquisition and internal growth.

The new Mexico City food processing plant, announced in last year's report, was completed during 1967. This plant has the most modern equipment available, and manufactures, among other products, Sabritas potato chips, the Company's Mexican brand. With superior quality and increased capacity, snack food sales in Mexico are expected to grow rapidly.

PepsiCo International continued to advertise its new theme for Pepsi-Cola, "Turn It On With The Taste of Pepsi," in 46 languages, and the campaign shows increasing acceptance. The latest campaign for Mirinda, "m-m-m-Mirinda—Drench Your Thirst With Flavor," entered its second year, still showing gains in public awareness. Pepsi-Cola advertising featured the advantages of the 26-ounce bottle, the size growing most rapidly in popularity in many markets.

This Division's sales have long been the fastest growing in the PepsiCo family. There is every reason to believe this will continue to hold true in 1968, as the division opens more overseas plants, introduces its products to new and untapped markets, acquires new product lines, and continues to sell more products in the cities and countries where they are already so popular.

John R. Allison
President & Chief Executive Officer

LPI, PepsiCo's service industries division, showed an increase in pre-tax profits of 29 percent, while after tax profits rose 11 percent for 1967. A lessening of available investment tax credit prevented an increase after tax equal to the pre-tax rise. This division continued to diversify into new areas with two mergers pending at year-end.

North American Van Lines is one of the nation's leading movers of household goods. The NAVL merger, originally announced in April, 1966, was approved by a division of the Interstate Commerce Commission on February 14, 1968. Administrative and judicial procedures are still available to the protesting parties and a definite date for the consummation of the transaction cannot be determined.

The merger of Chandler Leasing Corporation into PepsiCo, first announced in November, 1967, has been approved by the boards of directors of both companies. The agreement is still subject to the receipt of a favorable tax ruling and the approval of certain lenders and investors, as well as by Chandler stockholders at a special meeting scheduled in May.

Chandler, based in Waltham, Mass., is primarily engaged in long-term leasing of data processing and peripheral equipment, office machines, and plant automation, aircraft and other service equipment throughout the U. S. The Chandler merger would enable LPI to offer its clients a greatly expanded range of leasing services.

During the year, John R. Allison was elected president and chief executive officer of Lease Plan International. He had been vice president and controller of PepsiCo.

As now structured, Lease Plan is divided into three principal areas of operation: Automotive Leasing, including both large and small fleets and single units; Full Service Truck Leasing, including maintenance of vehicles; and Common Carrier Operations, including the moving of mobile homes and pre-fabricated building components.

During the year, studies were completed confirming the feasibility of expanding Mobilease, which leases or rents "instant space": relocatable school buildings, office and production facilities, construction trailers, and bank branches.

The Pepsi-Cola Division and the Frito-Lay Division use several thousand cars, delivery and over-the-road trucks in their distribution systems. The transportation services provided for these fleets plus the fleets of cars and trucks owned for its other leasing customers place LPI in a position of experience and leadership in this constantly growing industry.

In 1967 the Division postured itself to explore international investment opportunities. Its operations are now established in Puerto Rico, Canada and, through association, with leasing companies in South Africa, Japan and the Netherlands.

With the profitable expansion experienced in 1967 despite conditions in the money market, and with contemplated mergers resulting in diversification of the services it offers, Lease Plan looks forward to additional gains in 1968.

Empire State Sugar Company

The Company's Montezuma, N.Y. beet/cane sugar plant refined a total of 303,000 cwt. of beet and cane sugar during 1967, but continues to face serious problems.

As previously reported, the firm responsible for the design and construction of the plant contracted to deliver a complete and operable plant by Sept. 30, 1965, for a guaranteed maximum cost.

The contractor failed to make such a delivery and costs have substantially exceeded the guaranteed maximum. In 1966, PepsiCo wrote off excess construction costs of $12 million, resulting in a charge to retained earnings of $6.2 million, after tax benefits. At no time has the plant met planned production levels or efficiency rates. Negotiations are in progress concerning claims PepsiCo has made against this contractor. If negotiations do not result in a satisfactory settlement, the Company intends to litigate this matter to determine what portion, if any, of these costs is the responsibility of PepsiCo.

As of Dec. 30, 1967, the Company's book investment in the sugar plant, after depreciation and other reserves, was $18.4 million.

Operating losses have been charged to expense in the income statement on Page 27 amounting to $3.5 million in 1966 and $5.3 million in 1967, before federal income taxes.

In December, PepsiCo announced it was negotiating with Maine Sugar Industries, Inc. for it to take over the operations of the refinery through an affiliate, New York Sugar Industries, Inc., under a long-term lease with an option to buy the facility.

Maine Sugar Industries, Inc., located in Easton, Maine, has considerable experience in beet/cane sugar refining.

Completion of the arrangement depends in part on New York Sugar Industries' obtaining financing for working capital and for completion of the facility.

PepsiCo has not entered into any arrangements with farmers for beet plantings in 1968, nor does it plan to refine raw cane at the Montezuma plant.

Management anticipates that the arrangement with New York Sugar Industries will be successfully completed.

If, however, the negotiations between PepsiCo and New York Sugar Industries are not completed, as presently contemplated or otherwise, the Company will have to re-examine the various alternatives available to it. It is not now in a position to determine the extent to which its present investment in the plant would be impaired if any of the alternatives were followed.

The Company will continue to keep its shareholders informed.

PepsiCo Is...


DIET PEPSI-COLA
Pepsi
8 FL OZ
DIET PEPSI

Towie Brand Artichoke Hearts, Imported Cocktail Onions, Spanish Olives, Maraschino Cherries.

Pepsi-Cola, Diet Pepsi-Cola, Fritos Corn Chips, Lay's Potato Chips.

PepsiCo is... a lot more than just a cold drink on a warm summer's day. PepsiCo is a worldwide consumer products and service company, specializing in soft drinks, convenience and snack foods, and leasing and transportation services. Its four major divisions are: Pepsi-Cola, Frito-Lay, PepsiCo International, and Lease Plan International. It markets its soft drinks through nearly a thousand franchised bottlers in the U.S. and 114 other countries and territories, operates more than 120 manufacturing plants, owns and leases tens of thousands of vehicles, employs more than 25,000 persons, has 49,000 stockholders.


Mountain

Mountain Dew, Teem, Lay's Barbecue Potato Chips, Rold Gold Pretzels, Lay's Green Onion Potato Chips.

PepsiCo is a hundred products, available to more than a billion people around the world. Every day, nearly 80 million people around the world line up to buy a PepsiCo soft drink or snack food. It takes thousands of carloads of materials—commodities, glass, paper and a hundred other items—each year to manufacture the company's products. Many of the most familiar of those products are shown on these pages.

Pepsi-Cola, Diet Pepsi-Cola, Ruffles, Lay's Dry Roasted Peanuts, Chee-tos.

PepsiCo is the company born before the turn of the century, when Caleb Bradham, a North Carolina pharmacist, produced his first Pepsi-Cola. Then, in 1932, Herman Lay delivered his first potato chips in Nashville, Tenn. and Elmer Doolin began making and selling Fritos corn chips in Texas. Those products grew rapidly in popularity and by the Sixties, the companies which sprang from those beginnings—Pepsi-Cola Company on one hand and Frito-Lay on the other—had grown to be leaders in their fields. In 1947, Donald M. Kendall joined Pepsi-Cola Company as a syrup salesman. In 1965, the two companies merged to form PepsiCo, Inc.


PEPS
Fritos


Pepsi

Tropic Surf, Peanut Butter Filled Fantastix, Tacos Flavored Doritos.

PepsiCo is research that develops new products with unique appeals like those shown on these two pages. Gone are the days when a soft drink or snack food company need market only a single "bread and butter" item. PepsiCo's research laboratories are devoted not just to the improvement of the Company's current products, but to the development of new tastes and flavors.


Pepsi-Cola
8 FL.OZ.

Sabritas Potato Chips, Paso de los Toros.

PepsiCo is advertising that has become a part of American speech. In the Thirties, Americans whistled, "Twice as Much for a Nickel, too..." In the Fifties, they listened to the urging, "Think Young." In the Sixties, they joined the "Pepsi Generation." Many of the advertising themes for PepsiCo products are among the most familiar in the United States today: "Taste That Beats the Others Cold, Pepsi Pours It On," "Betcha Can't Eat Just One Lay's Potato Chip," "Girls Girl Watchers Watch Drink Diet Pepsi," and "Muncha Buncha Fritos Corn Chips." In all, PepsiCo products are advertised in 46 languages around the world.

Fritos Brand Dip Mixes, Jalapeño Bean Dip, Ruffles Potato Chips.

PepsiCo International soft drinks including Pepsi-Cola, Teem, Mirinda.

PepsiCo is a variety of products around the world. Sometimes different products, to suit the tastes of different lands and different cultures, occasionally a brand native to one country with its identity the same or slightly changed for use in another country. Aside from Pepsi-Cola, familiar throughout the world, the best-known overseas product is Mirinda, a line of soft-drink flavors whose brand name was derived from Esperanto—the "international" language—so it would be identifiable in every country and tongue.


Pepsi-Cola

PepsiCo is as much a salesman's car in Detroit as a Pepsi-Cola in Phoenix. And it is a delivery truck in Denver, a classroom in Burbank, a GI's mobile home on the road from Fort Dix to his hometown. Through Lease Plan International, PepsiCo is in the services industry, an area expected to continue to grow at a rapid pace. In all, Lease Plan International leases tens of thousands of vehicles to major American companies.

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Shareholders,
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 30, 1967 and the related statements of consolidated income and retained earnings and consolidated source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to consummation of the arrangements for leasing the beet/cane sugar facility as explained on page 8, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 30, 1967 and the consolidated results of their operations and the consolidated source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after restatement of that year as explained in Note 1.

Arthur Young & Company

March 8, 1968

PepsiCo, Inc. and Subsidiaries

Consolidated Statement of Income and Retained Earnings Years ended December 30, 1967 and December 31, 1966

	1967	1966 (Note 1)
Revenues		
Net sales	$665,345,280	$604,665,701
Interest and other income	5,242,570	4,815,920
	670,587,850	609,481,621
Costs and Expenses		
Cost of sales	326,623,988	287,611,009
Advertising, selling and administrative	269,334,568	250,298,353
Interest expense	5,138,822	4,395,832
Other expenses	6,397,626	4,720,545
	607,495,004	547,025,739
	63,092,846	62,455,882
Provision for federal and foreign income taxes (including deferred: 1967—$1,900,000; 1966—$1,800,000)	26,150,000	26,500,000
	36,942,846	35,955,882
Equity in net income of Lease Plan International Corp.	2,306,268	2,084,406
Income before extraordinary item	39,249,114	38,040,288
Extraordinary item		
Write-down of sugar facility (net of federal income tax benefit)	—	6,240,000
Net Income	39,249,114	31,800,288
Retained earnings at beginning of year	149,762,155	134,582,460
Cash dividends (per share: 1967—87½¢; 1966—80¢)	(18,320,906)	(16,620,593)
Retained earnings at end of year	$170,690,363	$149,762,155

Net Income Per Share (based on average shares outstanding)

	1967	1966
Income before extraordinary item	$1.88	$1.83
Extraordinary item	—	(.30)
Net income	$1.88	$1.53

See accompanying notes.

PepsiCo, Inc. and Subsidiaries

Consolidated Balance Sheet December 30, 1967 and December 31, 1966

ASSETS	1967	1966
Current Assets		
Cash	$ 34,325,878	$ 29,634,594
Short-term securities (approximates market)	29,780,567	46,538,479
Notes and accounts receivable, less allowance	48,750,222	40,728,422
Inventories—at cost (principally average method) not in excess of market	55,390,237	53,965,385
Prepaid expenses	9,250,614	8,046,262
	177,497,518	178,913,142
Investments and Long-Term Receivables		
Lease Plan International Corp.—at equity	17,541,297	15,466,931
Receivables (non-current) and other investments (at cost less reserves)	7,701,828	10,928,414
	25,243,125	26,395,345
Property, Plant and Equipment, at Cost		
Land	10,752,928	8,825,522
Buildings	44,646,636	40,639,312
Machinery and equipment	184,750,679	165,024,582
Bottles and cases	24,392,589	22,642,299
	264,542,832	237,131,715
Less accumulated depreciation and amortization	100,196,487	89,335,175
	164,346,345	147,796,540
Other Assets	13,068,025	12,732,431
	$380,155,013	$365,837,458

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	**1967**	1966
Current Liabilities		
Notes payable (including current installments on long-term debt)	**$ 17,548,045**	$ 20,775,527
Accounts payable and accrued liabilities	**56,447,266**	51,471,950
Federal and foreign income taxes	**7,974,365**	18,526,202
Customers' deposits on bottles and cases	**11,264,385**	11,356,387
	93,234,061	102,130,066
Long-Term Debt	**66,552,594**	69,393,425
Deferred Income Taxes	**4,000,000**	2,100,000
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding at December 30, 1967, 20,987,444 shares	**3,497,907**	3,473,921
Capital in excess of par value	**42,180,088**	38,977,891
Retained earnings	**170,690,363**	149,762,155
	216,368,358	192,213,967
	$380,155,013	$365,837,458

Consolidated Statement of Source and Application of Funds Year ended December 30, 1967

Source of Funds		Application of Funds	
Operations			
Net income	$39,249,000	Dividends	$18,321,000
Depreciation and amortization	19,800,000	Plant and equipment	37,502,000
Deferred income taxes	1,900,000	Containers—net	1,750,000
Capital stock	3,226,000	Debt retirement	2,841,000
Property disposals	3,768,000	Other	1,201,000
Investments	1,152,000	Increase in working capital	7,480,000
	$69,095,000		$69,095,000

Notes to Consolidated Financial Statements

Note 1—Principles of consolidation. All domestic and foreign subsidiaries have been included in the consolidated financial statements with the exception of Lease Plan International Corp. which is carried at equity (see Note 9 for condensed financial information).

The Company's policy is to reflect in consolidated net income the current earnings of its foreign subsidiaries. Adequate provision has been made in the financial statements to give effect to the translation of foreign currencies at realistic rates. The total assets, total liabilities and net current assets of consolidated foreign subsidiaries and branches (other than Canadian subsidiaries) stated in terms of United States dollars were $88,600,000, $37,300,000 and $900,000 respectively, at December 30, 1967.

In accordance with accounting practice which became effective in 1967, net income for the year ended December 31, 1966 has been restated to include an extraordinary item, previously charged to retained earnings. Certain other 1966 amounts have been reclassified to conform to 1967 presentation.

Note 2—Sugar facility. See page 8 for information concerning the beet/cane sugar facility at Montezuma, New York.

Note 3—Long-term debt and retained earnings restrictions. Long-term debt as of December 30, 1967 (less current installments) consisted of the following:

4½% convertible debentures, due in 1981	$30,000,000
4⅞% mortgage note, due in semi-annual installments of $756,418 including interest to 1996	22,579,092
5¼% notes payable, due $1,250,000 annually to 1974	8,750,000
5½% note payable, due $380,000 annually to 1981	4,640,000
Other	583,502
	$66,552,594

The loan agreements contain various restrictions, including provisions relating to restrictions on the payment of dividends (except stock dividends) and the purchase by the Company of shares of its capital stock. Of the consolidated retained earnings at December 30, 1967, $99,900,000 was free of such restrictions.

Note 4—Capital stock and capital in excess of par value. In 1967, the shareholders approved an increase in authorized capital stock to 30,000,000 shares and a two-for-one stock split. Capital stock information and per share data have been adjusted to reflect this split.

Shares reserved for options and conversions of debentures at December 30, 1967 were as follows:

Stock options	539,970
4½% convertible debentures (at $46.50 per share)	645,162
6% convertible subordinated debentures of Lease Plan	7,655
	1,192,787

At December 30, 1967, options were outstanding on 435,604 shares (of which 248,780 were then exercisable) having an aggregate option price of $12,911,233; the balance of 104,366 shares being available for future grants under the Company's 1964 Plan. Changes in options during 1967 were as follows: granted as to 4,000 shares having an aggregate option price of $180,250; exercised as to 141,526 having an aggregate option price of $3,201,183; and cancelled as to 8,606 shares.

The increase in 1967 of $3,202,197 in capital in excess of par value results from the excess of proceeds over par value of 141,526 shares issued under stock option plans and 2,392 shares issued on conversion of Lease Plan debentures.

Note 5—Long-term leases and commitments. The Company and its subsidiaries are lessees under long-term leases for office space, plant and warehouse facilities expiring at various dates to 1992 having minimum aggregate annual rentals of $4,400,000 (exclusive of insurance, taxes and repairs).

At December 30, 1967 the Company and its subsidiaries were contingently liable as guarantors of loans, principally to franchised bottlers, aggregating $6,400,000.

The Company is also contingently liable for the repurchase of vending equipment acquired by franchisees, unpaid balances by them to banks in this regard being $6,700,000 at December 30, 1967.

Note 6—Pensions. The Company and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees and certain of its employees outside of the U.S. The Company's policy is to accrue and fund normal cost plus interest on unfunded prior service cost.

Effective January 1, 1967, certain of the Company's plans were amended to increase certain benefits and concurrently changes in certain actuarial assumptions were adopted, which did not have a material effect on net income. Pension expense was approximately $3,900,000 in 1967.

Note 7—Federal Trade Commission. In 1963 the Federal Trade Commission issued a complaint against a subsidiary (Frito-Lay, Inc.) alleging violations of Section 7 of the Clayton Act, as amended, by reason of the acquisition of certain companies during the years 1958, 1960 and 1961. The complaint seeks to require divestiture of the assets or stock of such companies (which constitute a substantial portion of Frito-Lay's consolidated assets and operations) as going concerns and to prohibit for a period of ten years the acquisition of companies engaged in the manufacture or sale of potato chips, corn chips or pretzels. In the opinion of counsel, these charges are without legal basis. The United States District Court for the Eastern District of Texas entered an order in 1966 denying the relief sought in an action brought by Frito-Lay seeking a declaratory judgment and an injunction against the FTC. Frito-Lay appealed to the U.S. Court of Appeals for the Fifth Circuit and the order entered by the District Court was affirmed by the U.S. Court of Appeals on June 21, 1967. The Federal Trade Commission continues to hold further proceedings in abeyance pending disposition of proposals before the Commission.

Note 8—Pending acquisitions. See page 7 regarding the pending acquisitions of North American Van Lines, Inc. and Chandler Leasing Corporation for 636,818 and 475,611 shares of the Company's capital stock, respectively (subject to certain adjustments as provided in the agreements). The agreement with Chandler also contains provisions for the assumption of its outstanding stock options and warrants.

Note 9 — Lease Plan International Corp. The Company's investment in Lease Plan International Corp. is carried at its equity in Lease Plan's consolidated net assets.

In 1967, Lease Plan adopted a method of accounting for finance-type leases and contracts commencing in that year to conform to accounting practice which became effective January 1, 1967. The effect of this change was to increase 1967 net income by $186,000. Earnings for 1966 are as previously reported, but have been reclassified for comparability in the manner shown below.

Condensed comparative consolidated financial statements of Lease Plan at December 31, 1967 and 1966 and for the years then ended, are as follows:

CONDENSED FINANCIAL POSITION	1967	1966
	(in thousands)	
Cash	$ 4,594	$ 3,604
Leases and contracts receivable	165,841	149,020
Property and equipment, less accumulated depreciation (1967—$4,767,000; 1966—$3,529,000)	14,117	11,077
Other assets, including franchises, certificates and intangibles	9,365	10,823
Assets	193,917	174,524
Secured notes payable	136,856	122,569
Other notes payable	25,434	23,438
Accounts payable and accruals	4,239	5,388
Deferred federal income tax	9,847	7,662
Liabilities	176,376	159,057
PepsiCo equity in Lease Plan	$ 17,541	$ 15,467
Represented by:		
Common stock and capital surplus	$ 5,830	$ 5,830
Retained earnings	11,555	9,249
Payable to PepsiCo, Inc.	156	388
	$ 17,541	$ 15,467

CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS	1967	1966
	(in thousands)	
Income		
Common carrier revenues	$ 15,803	$ 14,314
Leasing and other income	14,971	13,189
	30,774	27,503*
Operating costs and expenses (including depreciation — 1967—$2,419,000; 1966—$1,847,000)	26,400	24,114*
	4,374	3,389
Provision for deferred federal income taxes (including current—$205,000 in 1967 and $203,000 in 1966)	2,068	1,305
Net income	2,306	2,084
Retained earnings at beginning of year	9,249	7,165
Retained earnings at end of year	$ 11,555	$ 9,249

*Amounts previously reported in 1966 were $78,700,000 and $75,300,000, respectively. After reclassification, the 1966 statement reflects leasing income and related expenses applicable to finance-type leases, having removed from amounts previously reported $51,200,000 related to items of an operating nature.

Secured notes payable are generally repayable as the related leases and contracts receivable are collected.

With respect to one subsidiary of Lease Plan, PepsiCo, Inc. has guaranteed $22,800,000 of Other Notes Payable (principally 4½% notes due in 1972); these obligations are not collateralized by the pledge of leases and contracts receivable or rental equipment.

PepsiCo, Inc. Directors

Herman W. Lay*†
Chairman of the Board, PepsiCo, Inc. and Chairman of the Finance Committee

Donald M. Kendall*†
President and Chief Executive Officer, PepsiCo, Inc. and Chairman of the Executive Committee

Charles Allen, Jr.†
Senior Partner, Allen & Company, Investment Bankers

Herbert L. Barnet*
Chairman of the Board, Pepsi-Cola Company

Thomas Elmezzi*
Executive Vice President, PepsiCo, Inc.

Harry E. Gould*
Chairman of the Board, Universal American Corporation, diversified manufacturer of industrial products

William B. Oliver*
Chairman, Frito-Lay, Inc., and Vice President, Food Operations (U.S.), PepsiCo, Inc.

Herman A. Schaefer†
Executive Vice President, Finance and Administration, PepsiCo, Inc.

James B. Somerall
President, Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.

Robert H. Stewart III†
Chairman of the Board, First National Bank in Dallas

Fladger F. Tannery*
Chairman of the Board, PepsiCo International and Executive Vice President, PepsiCo, Inc.

George C. Textor*†
Chairman of the Board, Marine Midland Grace Trust Company of New York

Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

John D. Williamson
Senior Vice President, Frito-Lay, Inc.

**Member of the Executive Committee*
†Member of the Finance Committee

PepsiCo, Inc. Executive Offices

500 Park Avenue, New York, N. Y. 10022

Officers

Herman W. Lay, *Chairman of the Board*
Donald M. Kendall, *President and Chief Executive Officer*
Thomas Elmezzi, *Executive Vice President*
Herman A. Schaefer, *Executive Vice President, Finance and Administration*
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Gerald J. Fischer, *Vice President, Controller*
Peter J. De Luca, *Vice President, General Counsel, Secretary*
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Roy E. Morse, *Vice President, Research*
William B. Oliver, *Vice President, Food Operations (U.S.)*
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Peter K. Warren, *Vice President, International Operations*
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W. Lamar Lovvorn, *Assistant Secretary*
James W. Robertson, *Assistant Secretary*
Harold E. Rome, *Assistant Secretary*
Edson E. Beckwith, *Assistant Treasurer*

Pepsi-Cola Division Executive Offices

500 Park Avenue, New York, N. Y. 10022
James B. Somerall, *President*

Frito-Lay Division Executive Offices

Frito-Lay Tower, Exchange Park, Dallas, Texas 75235
William B. Oliver, *Chairman*

PepsiCo International Division Executive Offices

500 Park Avenue, New York, N. Y. 10022
Peter K. Warren, *President*

Lease Plan International Executive Offices

130 Steamboat Road, Great Neck, N. Y. 11022
John R. Allison, *President*

Annual Meeting

The Annual Meeting of our Stockholders will be held at the Company's home office at 100 West Tenth Street in Wilmington, Delaware, at 2:00 P.M. (E.D.T.) Wednesday, May 1, 1968. Proxies for the meeting will be solicited by the Management in a separate Proxy Statement. This Report is not a part of such proxy solicitation and is not to be used as such.

Transfer Agents

Marine Midland Grace Trust Company of New York, New York, N. Y.
The First National Bank of Jersey City, Jersey City, N. J.
Harris Trust and Savings Bank, Chicago, Ill.
First National Bank in Dallas, Dallas, Texas
The Fulton National Bank of Atlanta, Atlanta, Ga.

Registrars

The Chase Manhattan Bank, New York, N. Y.
The First National Bank of Chicago, Chicago, Ill.
Republic National Bank of Dallas, Dallas, Texas
The First National Bank of Atlanta, Atlanta, Ga.

Auditors

Arthur Young & Company, New York, N. Y.

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